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ANNUAL REPORT

OF

MARSHALL FIELD & COMPANY

YEAR ENDED DECEMBER 31, 1949

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MARSHALL FIELD & COMPANY

An Illinois Corporation

Founded in 1852 *Incorporated in 1901*

General Offices:

25 EAST WASHINGTON STREET, CHICAGO 2, ILLINOIS

1949

ANNUAL REPORT TO SHAREHOLDERS

General Counsel
WILSON & McILVAINE
CHICAGO

Public Accountants
ARTHUR ANDERSEN & CO.
CHICAGO

Transfer Agents
CONTINENTAL ILLINOIS NATIONAL BANK AND TRUST COMPANY OF CHICAGO
CHICAGO

GUARANTY TRUST COMPANY OF NEW YORK
NEW YORK

Registrars
THE FIRST NATIONAL BANK OF CHICAGO
CHICAGO

BANKERS TRUST COMPANY
NEW YORK

BOARD OF DIRECTORS

ALBERT B. DICK, JR.
MARSHALL FIELD
STANLEY FIELD
CHARLES Y. FREEMAN
HENRY P. ISHAM
HUGHSTON M. McBAIN
JAMES L. PALMER
JAMES SIMPSON, JR.
JOHN P. WILSON

OFFICERS

Chairman
HUGHSTON M. McBAIN

President
JAMES L. PALMER

Vice Presidents
AUSTIN T. GRAVES
LUTHER H. HODGES
MILTON C. MUMFORD
HAROLD J. NUTTING
JEAN L. SCHUREMAN
WILLIAM S. STREET

Divisional Vice Presidents
GARRET L. BERGEN
DAVID W. DAVIDSON
HECTOR A. ESCOBOSA
PAUL M. HAMMAKER
EGIL E. KROGH
JOHN McKINLAY, JR.
LAWRENCE B. SIZER
HAROLD W. WHITCOMB

Treasurer
EARL KRIBBEN

Comptroller
JOHN D. ANDERSEN

Secretary
RALPH E. BOWERS

Assistant to the Chairman
GERALD A. SIVAGE

Assistant Treasurer
CHARLES M. RHODES

Assistant Comptroller
JAMES C. WALSH

Assistant Secretary
VOLKER KOCH-WESER

TO THE SHAREHOLDERS

The Board of Directors submits this annual report for the year ended December 31, 1949.

Your Company's 1949 net income was $8,658,000 compared with $11,234,000 in 1948. A sales decline of 7.5% was the principal factor accounting for the reduction in earnings. The rate of gross profit in our retail stores was slightly less than in 1948, and this fact was responsible in part for our decrease in net income. Our expense of doing business declined in 1949 but not proportionately with sales.

A reduction in sales volume of 35% in the Fieldcrest Mills resulted in a net loss in this division of the business during the first half of 1949. Sales in the second half were off only 10%, with the result that the second-half earnings performance of the Mills improved greatly. Net income for the year was $574,000.

Net sales in our retail stores in 1949 were 5% below the 1948 level. Net income was $7,183,000. This net income figure, as well as the above figure for Fieldcrest Mills, is before the inventory reserve adjustment referred to below.

Operating results for the Company are summarized in the following table:

	1949	1948	% Decrease
NET SALES	$207,803,000	$224,547,000	7.5%
Wages, salaries and employe benefit costs	55,748,000	58,417,000	4.6
Cost of merchandise and miscellaneous expenses	139,542,000	146,720,000	4.9
Federal income taxes	4,755,000	7,376,000	35.5
Increase or (decrease) in reserve for inventory price decline	(900,000)	800,000	—
NET INCOME	8,658,000	11,234,000	22.9

Net income per Common Share after preferred dividend requirements was $4.13 compared with $5.45 in 1948 and $5.10 in 1947. The fifty-cent quarterly dividend rate in effect since 1946 was continued through 1949.

The Company's capital expenditures for improvement and modernization of buildings and equipment totaled $3,200,000 in 1949 as against $5,100,000 in the preceding year.

Payments toward the 1949 cost of our employe Retirement Program were $3,400,000. The value of assets in our Pension Trust as of December 31, 1949 was $17,600,000.

We ended 1949 with merchandise on hand and on order each about 3% lower than at the end of 1948. Inventories were $30,300,000 and merchandise on order $11,400,000.

Because prices declined in 1949, we reduced our reserve against decline in market value of inventories by $900,000, crediting this amount to current earnings. This procedure reversed that followed in 1948, a year during which prices advanced. We are following the policy of adjusting this reserve at each year-end, the amount of the adjustment depending on the magnitude of price changes during the year, and the size of our inventories. Our inventory reserve at December 31, 1949 was $7,200,000, or 17.3% of total inventory and commitments.

The Company's financial position was not altered materially during 1949. Working capital increased $2,000,000, and net income retained for use in the business $4,100,000. Our cash position, and our investment in inventories, receivables and fixed assets changed but slightly. No financing of any kind was done during the year.

In June, 1949, the Board of Directors authorized an expenditure of $6,250,000 to expand and modernize our Frederick & Nelson store in Seattle. Four and one-half stories will be added to the present building, constructed in 1918. This will increase the floor area of the store about 50%. This project has been under study for several years. For some time Frederick & Nelson has not had adequate space in which fully to serve its customers. The store also is in need of modernization in a number of important respects. We believe that with the completion of the project now planned Frederick & Nelson will be in a position to maintain its pre-eminent position in the Pacific Northwest for many years to come. We think, too, that only in this way will the store be able to take full advantage of the growth possibilities of that great section of our country. Construction will begin next month and should be completed in the summer of 1951. The method of financing this undertaking has not yet been selected.

There have been few major changes affecting management personnel in your Company during the past year. In April, 1949, Mr. Hughston M. McBain, President since 1943, was elected Chairman of the Board. At the same time, Mr. James L. Palmer, Executive Vice President since the same date, was elected President. These changes in title involved no changes in responsibility, Mr. McBain continuing as the chief executive officer of the Company. The title of Executive Vice President has been discontinued.

In January, 1950, Mr. Milton C. Mumford, Vice President, was assigned corporate management responsibility for the Fieldcrest Mills division. Mr. Luther H. Hodges, Vice President of the Company and General Manager of this division since 1943, with offices at Spray, North Carolina, continues in his present responsibility in this division, reporting to Mr. Mumford. Mr. Mumford will make his headquarters in New York. His experience includes several years of association with our manufacturing operations.

The outlook for your Company during the months immediately ahead is somewhat more promising than it was in early 1949. Prices and sales volume were then moving downward and a "recession" of greater or less severity was in prospect. It proved to be mild in the retail phase of our business, but quite serious in Fieldcrest Mills. At this moment prices are firm and sales volume is steady in all parts of the business. There seems to be confidence in most quarters about the general business outlook for the immediate future. In Fieldcrest Mills our current sales and order position is considerably stronger than it was a year ago. In our retail stores pressures continue toward lower gross margins and higher expense levels, but these pressures are less severe than at times in the recent past.

Unless a sharp downward trend develops in business generally in the near future, we believe the prospects for your Company in the months ahead may be viewed with moderate optimism. Our organization is seasoned and competent, and we have complete faith in its ability to deal effectively with any situation which may present itself during the coming year.

By order of the Board of Directors,

Chairman

President

February 22, 1950

THE STORY in BRIEF

	1949	1948	1947	1940
Net Sales	$207,800,000	$224,500,000	$211,400,000	$ 90,000,000
Net Income	8,700,000	11,200,000	10,600,000	5,700,000
Net Income per Common Share	4.13	5.45	5.10	2.47
Dividends Paid	4,500,000	4,500,000	4,500,000	3,400,000
Dividends Paid per Common Share	2.00	2.00	2.00	1.30
Current Net Income Retained in the Business	4,100,000	6,700,000	6,000,000	2,300,000
Cash and Securities	8,000,000	8,300,000	8,800,000	7,900,000
Merchandise Inventories	30,300,000	31,300,000	26,600,000	13,700,000
Merchandise on Order	11,400,000	11,900,000	15,100,000	4,000,000
Accounts Receivable	25,100,000	25,600,000	23,700,000	11,000,000
Current Assets	63,400,000	65,200,000	59,000,000	32,700,000
Net Working Capital	38,900,000	36,900,000	33,000,000	23,000,000
Fixed Assets	41,900,000	41,300,000	38,700,000	58,200,000
Expenditures for Plant and Equipment	3,200,000	5,100,000	6,800,000	1,700,000
Depreciation	2,600,000	2,200,000	1,800,000	2,400,000
Current Liabilities	24,500,000	28,300,000	26,000,000	9,700,000
Funded Debt	0	0	0	27,900,000
Amount Paid in for Capital Stock	41,000,000	41,000,000	41,000,000	42,000,000
Net Income Retained for Use in the Business	31,900,000	27,800,000	21,100,000	10,800,000
Reserves	10,000,000	11,500,000	11,600,000	1,900,000
Net Worth and Reserves	83,000,000	80,300,000	73,700,000	54,700,000
Number of Shareholders	15,575	16,083	16,228	9,088

INCOME STATEMENT

For the Years Ended December 31, 1949 and 1948

	1949	1948
NET SALES	$207,803,405	$224,547,479
DEDUCT:		
Materials and services purchased from others	$134,533,459	$142,527,211
Wages, salaries and employe benefit costs (see footnote)	55,748,404	58,416,882
Provision for depreciation and amortization	2,573,458	2,221,827
Taxes, other than social security and Federal income taxes	2,435,538	1,971,758
Federal income taxes (see footnote)	4,754,767	7,375,724
Increase or (decrease) in reserve for possible future decline in market value of inventories	(900,000)	800,000
	$199,145,626	$213,313,402
NET INCOME FOR THE YEAR	$ 8,657,779	$ 11,234,077

Footnote:

The portions of the past service costs of the Pension Plan paid or accrued in 1949 and 1948 are not included in wages, salaries and employe benefit costs and have not been deducted in determining the provisions for Federal income taxes. These costs, amounting to $865,000 in 1949 and $1,466,000 in 1948, less the reduction in taxes resulting therefrom, have been charged to a reserve. The Federal income taxes payable after deducting these costs are estimated at $4,426,067 in 1949 and $6,818,644 in 1948.

BALANCE SHEETS—DEC

ASSETS

	1949	1948
CURRENT ASSETS:		
Cash	$ 7,967,639	$ 8,269,151
Receivables from customers and others, less reserves	25,108,704	25,642,371
Merchandise inventories, priced at the lower of cost or market	30,300,935	31,257,222
TOTAL CURRENT ASSETS	$ 63,377,278	$ 65,168,744
PREPAID INSURANCE, SUPPLY INVENTORIES, ETC.	$ 2,224,151	$ 2,058,021

FIXED ASSETS:

Classification	Cost	Reserves for Depreciation and Amortization		
Land	$16,294,380	$ —	$ 16,294,380	$ 16,312,410
Leaseholds	725,846	160,466	565,380	573,024
Buildings and building equipment	29,149,250	15,508,669	13,640,581	13,602,296
Equipment	19,188,656	7,798,552	11,390,104	10,847,860
TOTAL FIXED ASSETS	$65,358,132	$23,467,687	$ 41,890,445	$ 41,335,590
GOODWILL, TRADEMARKS, ETC.			$ 1	$ 1
			$107,491,875	$108,562,356

MBER 31, 1949 AND 1948

LIABILITIES

	1949	1948
CURRENT LIABILITIES:		
Accounts payable	$ 9,194,949	$ 9,545,344
Accrued Federal income taxes	7,607,532	9,878,437
Other accrued liabilities	7,706,609	8,852,243
TOTAL CURRENT LIABILITIES	$ 24,509,090	$ 28,276,024
RESERVES:		
For possible future decline in market value of inventories, etc.	$ 7,200,000	$ 8,100,000
For net past service cost of Pension Plan	2,841,619	3,377,919
	$ 10,041,619	$ 11,477,919
CAPITAL STOCK:		
Cumulative Preferred Shares— Authorized 300,000 shares of $100 par value, issuable in series—4¼% Series; redeemable at premiums per share of $9.00 through March 31, 1950; $6.50 through March 31, 1955, and $4.00 thereafter; issued and outstanding 150,000 shares	$ 15,000,000	$ 15,000,000
Common Shares— Authorized 4,000,000 shares of no par value, of which 180,000 shares may be sold to officers or employes without first offering such shares to the shareholders; issued and outstanding 1,943,763 shares at stated value	16,818,815	16,818,815
AMOUNT PAID IN FOR SHARES IN EXCESS OF PAR OR STATED VALUE	9,207,179	9,207,179
NET INCOME RETAINED FOR USE IN THE BUSINESS ($6,000,000 not available for dividends on Common Shares as long as Cumulative Preferred Shares are outstanding)	31,915,172	27,782,419
	$ 72,941,166	$ 68,808,413
	$107,491,875	$108,562,356

NET INCOME RETAINED FOR USE IN THE BUSINESS

Balance at December 31, 1948		$27,782,419
Net income for the year		8,657,779
		$36,440,198
Cash dividends declared on—		
Cumulative Preferred Shares, 4¼% Series	$ 637,500	
Common Shares ($2.00 per share)	3,887,526	4,525,026
Balance at December 31, 1949		$31,915,172

RESERVE FOR POSSIBLE FUTURE DECLINE IN MARKET VALUE OF INVENTORIES, ETC.

Balance at December 31, 1948	$ 8,100,000
Decrease in reserve included in 1949 income	900,000
Balance at December 31, 1949	$ 7,200,000

RESERVE FOR NET PAST SERVICE COST OF PENSION PLAN

Balance at December 31, 1948	$ 3,377,919
Amount of past service cost paid or accrued in 1949 ($865,000), less reduction in Federal income tax ($328,700) resulting therefrom	536,300
Balance at December 31, 1949	$ 2,841,619

ARTHUR ANDERSEN & CO.

120 SOUTH LA SALLE STREET
CHICAGO 3

To the Shareholders of
Marshall Field & Company:

We have examined the balance sheet of MARSHALL FIELD & COMPANY (an Illinois corporation) as of December 31, 1949 and the related statements of income, net income retained for use in the business and reserves for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We had previously made a similar examination for the year ended December 31, 1948.

In our opinion, the accompanying balance sheet and statements of income, net income retained for use in the business and reserves present fairly the financial position of Marshall Field & Company as of December 31, 1949 and the results of its operations for the year then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

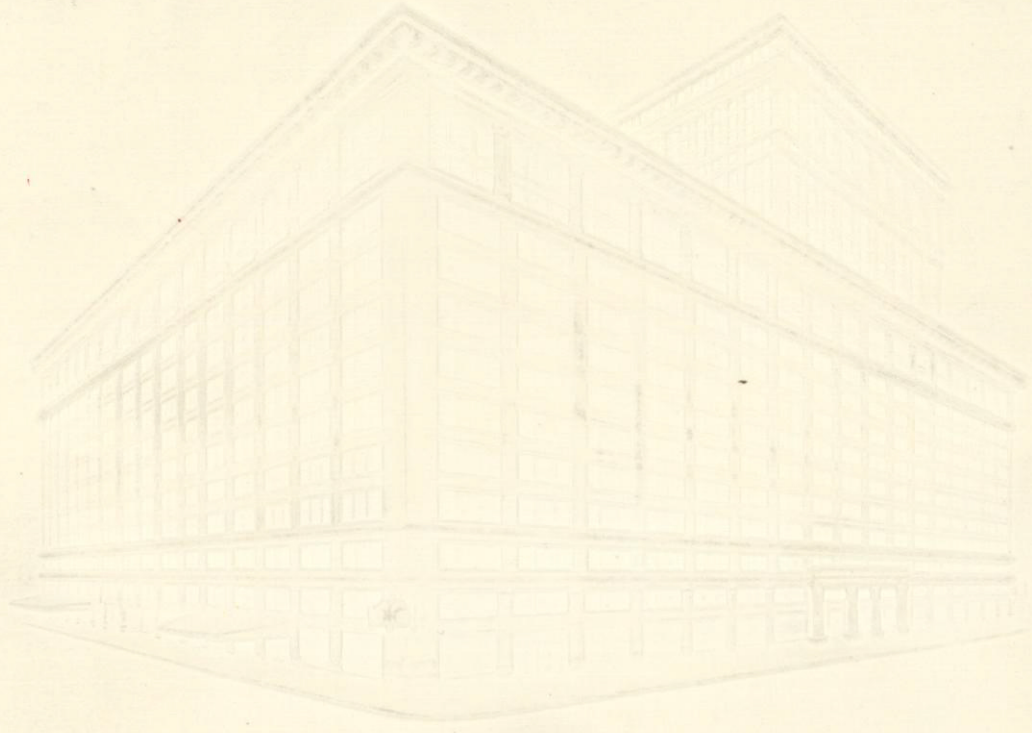
Chicago, Illinois,
February 6, 1950.

To the Shareholders of
Marshall Field & Company:

The financial statements contained in this report are correct, to my best knowledge and belief.

February 22, 1950.

John D Andersen
Comptroller



THE RETAIL STORE AND ANNEX BUILDING
CHICAGO